Reviewing and Reporting Environmental Performance

Learning Outcomes
By the end of this unit the learner will be able to:
✓ Outline the role of environmental reporting ✓ Understand the methods and formats available for preparing and presenting reports.

Reviewing and Reporting Environmental Performance

Benefits of Managing and Reporting

Managing and reporting environmental performance can be greatly beneficial to both businesses and the environment. Let's take a look at a few of these benefits.

Financial and Productivity Gains

Businesses can save money and increase efficiency by carefully managing resource consumption. Businesses can reduce costs and increase productivity by reducing:

- Waste output
- Water use
- Energy use
- Transportation and travelling
- Packaging

Reducing environmental impacts can help a business lower or even avoid any taxes or fees that may be associated with managing such impacts. Responsible management of risks and liabilities can lead to lower insurance costs.

Proper management and reporting can also improve a company's reputation with current and potential customers. Honest, detailed and clear reporting increases customer confidence. This leads to an increase in sales, which in turn increases company profits.

Preferred Supplier Status

Large organizations are increasingly requiring suppliers and contractors to submit environmental performance information to satisfy the expectations of their own shareholders. A company with good reporting is more likely to be chosen over its competitors.

74% of the British population say more information on a company's social and ethical behaviour would influence their purchasing decisions. (MORI CSR Study, 2003.)

Increased Attractiveness to Investors

Investors, financial analysts, and brokers take a company's sustainability into consideration when making important decisions. Reporting on environmental matters gives investors a good indication of what steps an organization is taking to reduce risks and develop opportunities, which in turn makes investors more likely to want to support a company with good reporting.

Example 1: GE's research-and-development investments in eco-friendlier technologies rose from $700 million in 2004 to $1.5 billion in 2010.

Example 2: The Carbon Trust estimates there has been over £1 billion of investment in UK clean technology companies since 2000.

Product and Service Innovation

Measuring and managing environmental impacts drives and supports innovation in product and service development, helping to create new markets and draw in more customers while also retaining current ones.

In Spring 2005, the Government appointed a business-led Sustainable Procurement Task Force to develop a national action plan for Sustainable Procurement across the public sector by April 2006. Public sector expenditure is over £125 billion.

Employee Recruitment

Clear environmental reporting also makes a good impression on potential staff, and can help to attract higher-quality employees.

Three in five people want to work for a company whose values are consistent with their own. (Source: A 2003 survey of 1,200 undergraduates across the 20 largest economies in the world, conducted by Environics' Global Campus Monitor.)

License to Operate

Managing and minimizing an organization's impact on the environment lowers the likelihood of its license to operate being revoked, since reporting provides a clear picture of both current performance and any steps the organization is planning to take to improve its performance.

Environmental Key Performance Indicators

Environmental Key Performance Indicators (KPIs) are measurement tools which reflect how well an organization is performing in terms of achieving its goals. KPIs help businesses link their various levels (units, departments and individuals) with clearly-defined targets and benchmarks.

The impact of environmental matters on business performance is increasing and will continue to do so. Poor management of energy, natural resources or waste can affect productivity. Failure to plan for a future in which environmental factors are likely to be significant may risk the long-term value and future of a business. Businesses need to use environmental KPIs to effectively track and link environmental and financial performance.

There are additional reasons why KPIs are important:

- They focus on key measures, keeping reports concise, and are therefore easier to work with.
- New regulations, such as the Business Review required by the EU Accounts Modernisation Directive, require significant environmental issues to be reported using KPIs.

Many companies are already collecting the data required to report on environmental KPIs, either because they can be calculated from standard business data, such as energy bills, or because the company already reports such information to a regulator.

Types of Reporting

Companies can report on environmental matters in two contexts:

1. **Mandatory reports** – for example, a Business Review
2. **Voluntary reports** – for example, a Corporate Responsibility (CR) report.

Mandatory reports

According to an Environment Agency study, 89% of FTSE All Share companies currently report on environmental issues in their Annual Report and Accounts. Many businesses will now have to produce a Business Review that will include a discussion of those environmental matters that are relevant to an understanding of the business.

Voluntary Reports

Organizations publish environmental information in Corporate Social Responsibility (CSR), Corporate Responsibility (CR), Sustainability, or stand-alone Environmental reports. One type of report is not necessarily better than another. What is important is that organizations remain clear and honest about their actions to reduce any harmful environmental or social impacts associated with their operations.

Reporting Systems and Guidelines

The increasing demand for businesses to be open about their environmental performance has led to the creation of various reporting guidelines and systems.

These guidelines are relevant to both mandatory and voluntary reports. In fact, the same information might be used in different reports. For example, a company might share its climate change performance as a part of a voluntary report and then decide to also include this information in the Annual Report or Business review because it affects the financial performance and value of the company.

These guidelines seek to help companies report their environmental impacts in a meaningful and cost-effective way. Efforts have also been made to ensure that the guidelines are consistent with other standards. In a recent report, Chatham House recommended that the British government clarify the international CSR agenda by supporting a limited number of "gold standard" initiatives. One such

framework proposed in the Chatham House report is the **Global Reporting Initiative (GRI),** which provides a detailed, globally applicable system for sustainability reporting. This is just one system, however – many other frameworks exist as well.

Environmental Management Systems (EMSs)

EMSs can be used by companies of all sizes as a means of improving their overall environmental performance. These systems will also provide useful information from a reporting perspective. The UK government's EMS Position Statement recommends the following types of certified EMSs:

- The global standard ISO 14001
- The European Regulation EMAS (the EU Eco Management and Audit Scheme)

Stakeholder Engagement

UNEP's Stakeholder Engagement Manual provides comprehensive information on how a company might begin a thorough stakeholder engagement process.

Assurance

The use of third party assurance statements adds credibility to a business's reporting and provides important feedback for the business in terms of its reputation. A number of organizations provide this service, and an assurance framework – AA1000 – has now been developed for this purpose.

Principles of Reporting

Regardless of which system a company uses, there are some common reporting principles that can provide assurance to a business and its stakeholders that the appropriate steps have been taken to manage environmental performance effectively. This information can be included in the body of a report to add context to KPIs.

Principle 1: Transparency

Transparency is essential to producing a trustworthy report. Thorough descriptions of internal operations are just as important as hard data because they provide a context which clarifies the data and gives them meaning. Reporting this information clearly and honestly provides a clear definition of the company's boundaries, as well as showing that the company is acting responsibly in terms of sustainable development.

Principle 2 – Accountability

A company can be accountable to a variety of groups for its behaviour. In a financial sense, directors are accountable to the owners of the company. The following all play a part in a company's accountability:

- The definition, level, and nature of stakeholder involvement
- The existence and quality of a third party assurance statement
- Including environmental reporting in the Annual Report and Accounts and the Business Review
- The existence and success of a strategy for communication
- The level of detail and relevant information for the needs of investors

Principle 3 – Credibility

A company's credibility, or trustworthiness, is linked to a number of factors, including:

- Whether the company appears to understand and support sustainable development
- Whether the company's policies reflect an effort to achieve sustainability
- Whether the company's EMS, and/or other data collection, measurement and management procedures are externally certified

KPI Principles

In addition to these general reporting principles, there are also some common KPI-specific principles.

Principle 1 – KPIs are Quantitative

KPIs must be measured; therefore, they must be quantitative – that is, measurable. Because they can be measured, they can then be analyzed and used to create targets which can be acted upon. For instance, if KPIs indicate dangerously high CO2 emissions, a goal can be set to reduce emissions by a certain amount within a certain time span.

Measurement of environmental impacts often requires some kind of conversion or estimation – for example, an estimation of carbon dioxide emissions caused by the use of heating oil. There are many standards that can be used to perform this type of calculation, and it is important to report on the procedures used to determine these impacts.

Units of measurement should be consistent, and data sources should be as readily available as possible. This adds to reporting transparency and should enable independent analysts to conduct in-depth research.

Principle 2: KPIs are Relevant

A KPI should be accompanied by an explanation of its purpose and impacts. As part of this explanation, all information relevant to that KPI should be taken into account. Each KPI explanation should describe how it was measured and calculated, as well as any assumptions about it. Progress should also be discussed, including whether goals have been achieved or whether setbacks have occurred and, if so, how they are being dealt with. How the KPI impacts finances – including potential fines or expenses – should also be discussed.

Principle 3: KPIs are Comparable

Companies need to report data in a comparable format in order that they can be easily compared to those of the company's competitors. It is important that companies do not omit or skew KPIs to hide poor performance. If there is an issue with KPI reporting, it should be discussed in the report.

KPI reporting should cover the entire business for the full length of each reporting period. Additionally, KPIs should relate to normalizing factors such as income and productivity. This tells stakeholders how much environmental impact a company has made in relation to the amount of goods produced or services offered. Normalized data can be particularly helpful in showing the environmental improvements of a growing business.

Environmental information should be published at the same time as Annual Reports and Accounts and should cover the same accounting period. Reporting should also be as consistent as possible with other types of company reporting.

Biodiversity

There is no single, universally accepted KPI for measuring the impacts of company activity on biodiversity, although most of the KPIs (indirectly or directly) do account for at least some activities that impact biodiversity. Fortunately, there are systems (such as the Global Reporting Initiative, or GRI) being developed to enable companies to report biodiversity impacts in a qualitative, rather than quantitative, way.

This will be particularly useful for supply chain companies and any business or activity that significantly impacts biodiversity, including extractive industries, natural resource use (including forestry) and agriculture (including pesticides/fertilizers).

Environmental Expenses

Connecting possible environmental fines and expenses with KPIs gives a financial context to potential investors. Some expenses may be linked to a specific KPI (waste, for example). If so, these expenses should be listed in the KPI information in a report. Other expenses may be harder to link to a single KPI. These expenses should be reported separately.

Environmental expenses include the cost of preventing, reducing or stopping pollution, as well as the cost of any liabilities, provisions, public funding or grants, and capital expenditures.

All businesses must follow the law. If a fine must be paid, it must also be reported. A summary of any prosecutions that were mounted during a year, including the number of prosecutions and the size of the associated fines and costs, should be included in the report. The Environment Agency has launched a free website (www.netregs.gov.uk) designed to help small and medium-sized businesses understand and comply with their environmental responsibilities.

Reporting Boundaries

Determining reporting boundaries can be complicated. The "polluter pays" principle is a good way of clarifying boundaries. According to this principle, the parties who directly caused the issue or event must take responsibility for it, financially and otherwise.

Direct and Indirect Impacts

Direct environmental impacts include greenhouse gas emissions from heating boilers and vehicles, other emissions from any manufacturing operations, and waste produced. The purchase of finished products, such as electricity, results in **upstream indirect (supply chain) impact**. Thus, the purchase of electricity, any form of transport where a company does not pay for the fuel, as well as supplied water, raw materials, and finished products are considered indirect impacts. **Downstream indirect (products in use) impacts** can be caused by the use or disposal of a product after it has been sold. Figure 1.1 sets out some direct and indirect impacts.

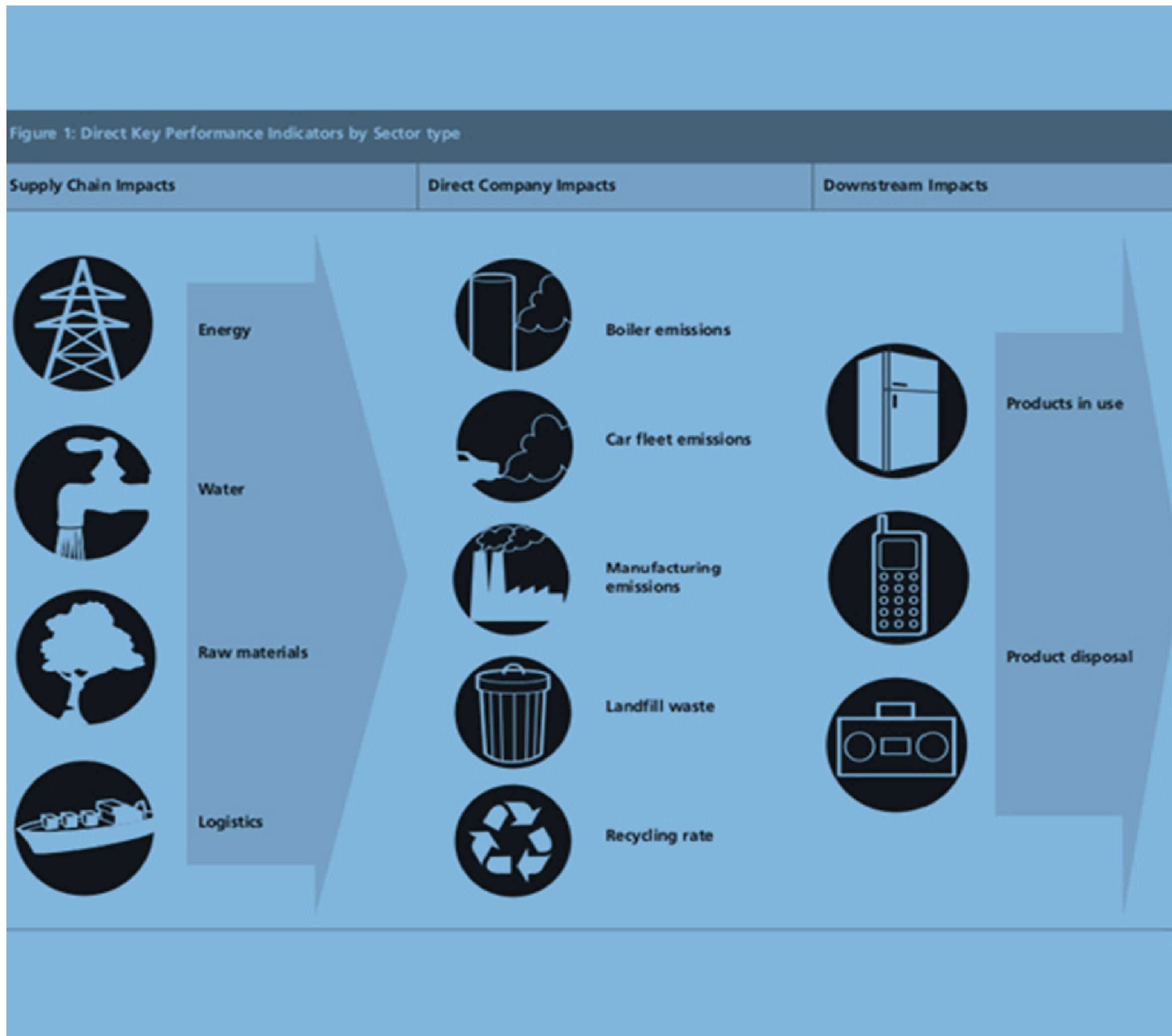

Fig 1.1: direct and indirect impacts

Energy and Water Use

Although energy and water use are indirect impacts, the responsibility for managing these is shared, since more than one company can influence this impact. For example, an electricity generator can reduce the carbon content of the electricity it generates. A company which uses that electricity can also improve its energy efficiency. In this example, both companies can improve their performance in order to effectively measure, manage and report this impact. For this reason, the greenhouse gas and water KPIs and the supply chain section both contain information on energy and water use. This means that two companies will be reporting the same impact.

Reporting Direct and Indirect KPIs

Businesses must report on their significant environmental impacts, be they direct or indirect. While direct impacts are often prioritized, positively influencing indirect impacts can also be beneficial because:

- The issues may be significant in terms of the organisation's overall environmental impact.

- Organizations need to be able to demonstrate that they will not be reducing their direct impacts at the expense of increased impacts elsewhere.
- Some stakeholders may hold the business responsible for supply-chain impacts, especially if they have a lot of purchasing power in the marketplace.

These issues are best tackled by adopting a strategic approach to environmental purchasing and supply-chain management. There is a wide range of support and guidance available to organizations, including help from the Strategic Supply-Chain Group and the information in the handbook “Environmental Purchasing in Practice.”

The Reporting Process

Reporting KPIs is a five-step process.

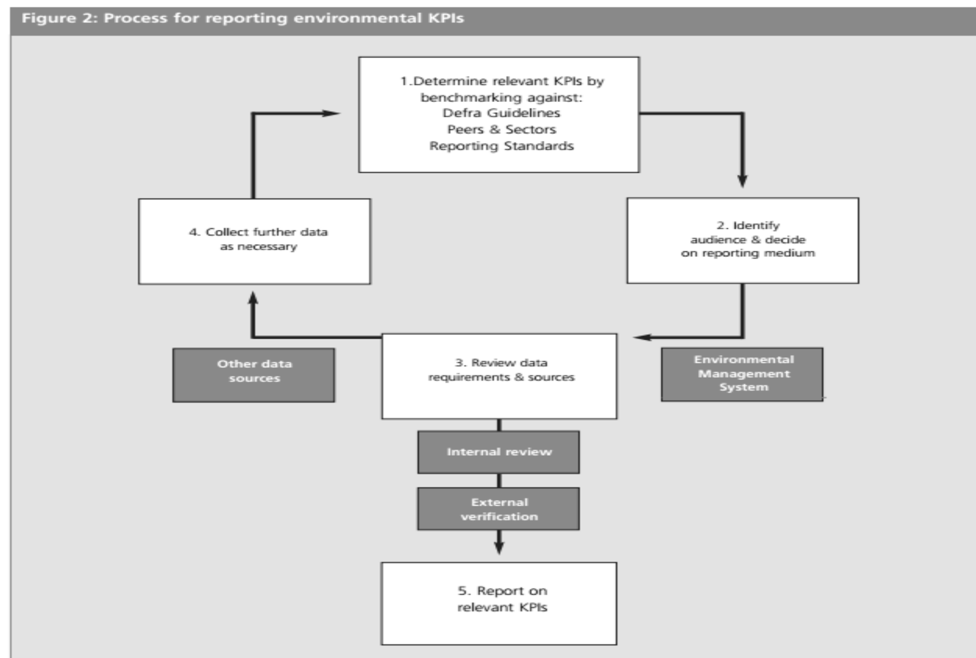

Fig. 1.2: environmental KPI reporting

Step 1: Determine Relevant KPIs

There are many ways of doing this. The most appropriate way will depend on the resources and knowledge available, and whether the organization is experienced at reporting.

For organizations that expect to report on a diverse and wide range of KPIs, it may be useful to refer to other standards that exist for environmental reporting, such as the Global Reporting Initiative. This may be especially useful for organizations that already report and wish to make their environmental reporting more extensive and inclusive.

Step 2: Identify the Audience and Decide on a Reporting Medium

It is important to ensure that the KPIs being reported are relevant to the audience to whom they are being reported. Audiences can include shareholders, employees, governments, suppliers, customers, academics, the local community and NGOs.

Step 3: Review Data Requirements and Sources

The next step is to gather data. Companies that are already reporting may have an appropriate data collection system in place. New reporters need to determine the best way of collecting the data that will be included in their report.

Step 4: Collect Further Data as Necessary

Once the data requirements and systems have been reviewed, it may be necessary to collect more information. This may involve expanding the data collection systems currently in place.

Step 5: Report on Relevant KPIs

Once all of the necessary information has been collected, relevant KPIs can be reported. This process can be repeated for every reporting period. Most companies that report on environmental KPIs do so annually.

Further Reading:

- ✓ ***Environmental Performance Review,Kyrgyzstan*** **(2009)**
- ✓ ***Environmental Performance Reviews,*** **United Nations. Economic Commission for Europe. Committee on Environmental Policy (2007)**